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Physiocracy and the Early Theories of Under-Consumption

By RONALD L. MEEK

The economists of the school of Adam Smith, when confronted with the unorthodox doctrines concerning the relationship between consumption and production which began to appear as the eighteenth century ended, immediately sensed their Physiocratic quality. Say, for example, in the lengthy section of his *Traité* devoted to consumption, said this about them :

Beaucoup de gens voyant, en gros, que la production égale toujours la consommation (car il faut bien que ce qui se consomme ait été produit) se sont imaginé qu'encourager la consommation, c'était favoriser la production. Les Économistes se sont emparés de cette idée et en ont fait un des principes fondamentaux de leur doctrine. La consommation est la mesure de la reproduction, disaient-ils ; c'est-à-dire : plus il se consomme, plus il se produit. Et, comme la production enrichit, on en a conclu qu'un état s'enrichissait par ses consommations, que l'épargne était directement contraire à la prospérité publique, et que le plus utile citoyen, était celui qui dépensait le plus.¹

And James Mill, in his reply to Spence, went even further, attributing to the Physiocrats something like a developed under-consumptionist theory of crisis :

The Economistes and their disciples express great apprehensions lest capital should increase too fast, lest the production of commodities should be too rapid. There is only, say they, a market for a given quantity of commodities, and if you increase the supply beyond that quantity you will be unable to dispose of the surplus.²

¹ Say, *Traité d'Économie Politique* (1st edn., 1803), Vol. II, pp. 358-9. Say refers his readers to Mercier de la Rivière, *Ordre Essentiel des Sociétés Politiques*, Vol. II, p. 138. Cf. *Traité*, Vol. II, p. 366.

² James Mill, *Commerce Defended* (2nd edn., 1808), p. 80.

To what extent were such statements concerning the affiliations of the new theories correct ? It is obvious enough that some connection existed, if only because of the fact that most of the early under-consumptionists, even when they were not out-and-out Physiocrats, had strong leanings in that direction. But what was the exact nature and significance of the relationship ? The present article is an attempt to answer these questions. It begins with a brief account of the doctrines relating to consumption held by the French Physiocrats ; it then passes to an examination of the theories of under-consumption put forward by Spence, Sismondi, Malthus, Chalmers and others ; and it concludes with some comments on the place of the early under-consumptionists in the history of economic thought.

I

Say was hardly justified in ascribing to the French Physiocrats without qualification the idea that "*encourager la consommation, c'était favoriser la production*". In so far as they did accept this doctrine, they confined its application to a sphere much more limited than Say's comments would suggest. And Mill was clearly quite wrong in asserting that they expressed great apprehensions "lest capital should increase too fast" ; when they did express any apprehensions concerning the accumulation of capital these were almost always to the effect that capital was not increasing fast enough. As I have tried to show elsewhere, the Physiocrats were primarily interested in the problem of the maximisation of the rate of increase in national wealth. The prosperity of the country, they believed, depended to a large extent upon the size of the "disposable revenue", or surplus over paid-out costs of production, which was yielded in agriculture, and upon the proportion of this net revenue which was annually converted into capital. The Physiocratic theory of consumption was directly related to this fundamental view of the economic problem. In essence, it amounted to a set of administrative rules and moral precepts designed, first, to assist in increasing the monetary value of the produce of agriculture, and second, to bring about a proper balance between productive and unproductive expenditure out of the *produit net*. Under the first heading the Physiocrats considered the effect of consumption on the *bon prix* of

agricultural produce, and under the second the so-called *théorie du luxe*.¹

The *produit net*, which was yielded only in agriculture, was the mainspring of the country's economic life and the key to its increasing prosperity. But the value of the *produit net* varied not only according to physical productivity but also according to the market price of agricultural produce. The higher the price of corn, other things being equal, the greater the *produit net*. "*Telle est la valeur vénale, tel est le revenu*:" it is stated in one of the *Maximes Générales*, "*Abondance et non-valeur n'est pas richesse. Disette et cherté est misère. Abondance et cherté est opulence*".² All possible measures should therefore be taken to raise the price of agricultural produce, which was considered to be (and in fact was) far too low, and to extend the market for it. The main measure which was called for was of course freedom of trade, both internal and external, in agricultural produce. But the Physiocrats also laid considerable emphasis on the importance of increasing the internal consumption of agricultural produce, and occasionally described the beneficial effects of an extended consumption in terms so extravagant as almost to warrant Say's criticism.³

The measures proposed for increasing the internal consumption of agricultural produce were many and varied. It was suggested, for example, that those manufactures which employed home-grown raw materials should be encouraged; that the lower classes should be made as well off as possible so that they would be able to buy more produce and pay a higher price for it; and that disposable revenue should never be accumulated in the form of monetary hoards. And the Physiocrats had plausible answers ready for those who objected, on the one hand, that low prices rather than high prices were beneficial to the common people, and on the other hand, that with higher prices the purchaser lost as much as the vendor gained so that no net profit was yielded.

¹ It is convenient to consider the two theories separately, but they were of course intimately related. The whole rationale of the distinction between *faste de décoration* and *faste de consommation* lay in the effect which the latter type of expenditure was conceived to have on the price of agricultural produce and thus on the value of the *produit net*. The most convenient collections of the texts are to be found in Weulersse, *Le Mouvement Physiocratique en France*, Vol. I, pp. 484-95, and René Gonnard, *Histoire des Doctrines Économiques* (5th edn.), pp. 54-8. A useful summary is also to be found in the introduction by A. Dubois to a 1912 reprint of Baudeau's *Principes de la Science Morale et Politique sur le Luxe et les Loix Somptuaires* (1767).

² *Œuvres de Quesnay* (ed. Oncken), p. 335.

³ Cf. Gonnard, *op. cit.*, p. 54.

To the first group of critics they replied in the words of the nineteenth *Maxime Générale* that—

*On ne croie pas que le bon marché des denrées est profitable au menu peuple ; car le bas prix des denrées fait baisser le salaire des gens du peuple, diminue leur aisance, leur procure moins de travail et d'occupations lucratives et anéantit le revenu de la nation.*¹

And to the second group Quesnay suggested that the increase in the price of agricultural produce would induce a sort of Physiocratic multiplier effect throughout the economy :

Ceux qui n'envisagent pas, dans toute son étendue, la distribution des richesses d'un État, peuvent objecter que la cherté n'est avantageuse que pour les vendeurs, et qu'elle appauvrit ceux qui achètent . . . La cherté, selon ces idées, ne peut donc pas être, dans aucun cas, une augmentation de richesses dans l'État.

*Mais la cherté et l'abondance des productions de l'agriculture n'augmentent-elles pas les profits des cultivateurs, les revenus du roi, des propriétaires et des bénéficiaires qui jouissent des dîmes ? Ces richesses elles-mêmes n'augmentent-elles pas aussi les dépenses et les gains ? Le manouvrier, l'artisan, le manufacturier, etc., ne font-ils pas payer leur temps et leurs ouvrages à proportion de ce que leur coûte leur subsistance ? Plus il y a de revenus dans un État, plus le commerce, les manufactures, les arts, les métiers et les autres professions deviennent nécessaires et lucratifs.*²

To raise agricultural prices was one way of increasing the *produit net* and national prosperity. The same problem could also be tackled from another angle : rules could be laid down concerning the manner in which the *produit net* ought to be disposed of by those to whom it accrued in the first instance. The *produit net* was “disposable” only in the sense that it represented a clear surplus over production costs in a given period of working—the manner in which it was actually expended was far from being a matter of indifference to society. The Physiocrats were well aware of the fact that a large number of the landed proprietors of their day were spending their rents on the luxuries of the cities rather than on the improvement of their land, and

¹ *Œuvres de Quesnay*, p. 335.

² *Ibid.*, pp. 248–9.

much of their argument was directed towards bringing about a reversal of this state of affairs.¹

The Physiocrats' *théorie du luxe* was an attempt to evaluate the various ways of spending the *produit net* according to the effect which they might be expected to have on the size of future *produits nets*. The concepts which they evolved were rather more complicated than those employed by Smith and his successors in their discussions on the productive and unproductive expenditure of revenue, since the Physiocrats had to take account of the fact that one type of seemingly unproductive expenditure—that on agricultural produce—might exert a stimulating effect on the economy per medium of the *bon prix* which it would help to bring about. In the earlier Physiocratic writings on this point there is a certain amount of vagueness and ambiguity, which was not entirely cleared up until Baudeau synthesised the theory in 1767 in the columns of the *Éphémérides*. His first job was to give an adequate definition of *luxe* :

*Nous appellons Luxe, l'intervention de l'ordre naturel, essentiel, des dépenses nationales, qui augmente la masse des dépenses non productives, au préjudice de celles qui servent à la production, et en même-tems au préjudice de la production elle-même.*²

But whether any particular act of expenditure on consumption goods out of the *produit net* comes within the category *luxe* necessarily depends upon the state of agriculture at that time. If agriculture is flourishing, then it is sufficient if the proprietor does not actually reduce his annual *dépenses agricoles* by his expenditure on consumption. If, on the other hand, agriculture is “*dégradée*”, or “*auroit été long-tems spoliée de ses avances*”, then it is the duty of the proprietor to put aside a substantial portion of the *produit net* each year in order to increase the *dépenses agricoles* and render them more productive. In either case a certain portion of the *produit net* should be ear-marked annually for use as capital in the improvement of the land, and to the extent that the proprietor spends this portion on goods for his own personal consumption he is committing the crime of *luxe*.³

¹ “*Les Riches et les richesses*”, complained Baudeau, “*n’habitent plus nos bameaux ; ils ont fui loin de nos guérets, qui ne peuvent jamais être fertilisés que par leur opulence*” (*op. cit.*, p. 20).

² Baudeau, *ibid.*, p. 14.

³ Baudeau, *ibid.*, pp. 14, 19 and 31-2.

Luxe is defined with reference to the degree of capitalisation of agriculture, and not with reference to the nature or amount of goods consumed.

But not all expenditure on luxury goods constitutes *luxe*. It is necessary to make a clear distinction between *faste*, i.e. conspicuous consumption, and *luxe*: *luxe* is very often *faste*, but *faste* is not necessarily *luxe*. *Faste* is not *luxe* when it represents expenditure out of that part of the *produit net* which is morally as well as legally disposable. Conspicuous consumption, in other words, is not *luxe* when it does not detrimentally affect the capitalisation of agriculture. But some kinds of conspicuous consumption are to be preferred to others, and a further distinction has to be made between *faste de consommation* and *faste de décoration*. Generally speaking, the former is to be preferred to the latter. *Faste de consommation*—the conspicuous consumption of primary produce—is healthy in so far as it helps to increase the *bon prix*. *Faste de décoration*—the conspicuous consumption of manufactured products—is less healthy, since, although the expenditure ultimately finds its way back to the productive classes, it does so burdened with all sorts of commercial costs. A hierarchy of permissible expenditure out of the *produit net* was thus erected. The most admirable type of expenditure was, of course, capital investment in agriculture. Until a state of capital saturation in agriculture is reached, as much as possible of the *produit net* should be spent in improving the land. And when agriculture is *dégradée*, *faste de décoration* is little better than a theft from society. The next most patriotic type of expenditure is *faste de consommation*, which should be so directed as to return their wealth to the productive classes as quickly as possible, and as little as possible burdened with incidental expenses. Thirdly, there is *faste de décoration*, when this does not constitute *luxe*. Baudeau somewhat grudgingly permits this type of expenditure to the proprietor “*qui se contente de ne pas faire mal, et qui préfère au plaisir de faire le bien public, celui de satisfaire son inclination ou son caprice*”.¹

Now it is fairly clear that there was very little in this Physiocratic theory of consumption which could have been of any direct use to an under-consumptionist. Consider, for example, two of the major themes which we find in the work of the under-consumptionists of the early nineteenth century

¹ Baudeau, *op. cit.*, p. 32.

—that increased investment somehow brings about a relative diminution of demand, and that a failure on the part of the proprietors to spend their surplus on manufactured goods will cause a hiatus in the circulation process. There is obviously little support to be found in French Physiocratic writings for either of these two propositions. The *théorie du luxe*, with its distinction between productive and unproductive expenditure out of revenue, was much more useful to Smith and Ricardo than it was to the under-consumptionists. And from the theory of the *bon prix* the under-consumptionists could garner little except a few rather vague aphorisms concerning the stimulating power of increased consumption—aphorisms which the English under-consumptionists could have found (and sometimes did find) much nearer home. The clear correlation between Physiocratic concepts and theories of under-consumption in the early nineteenth century, therefore, remains as a puzzle which we must try to solve.

II

Some modern commentators—Keynes, for example—have thought to detect in Mercantilist writings the beginnings of a long tradition of concern about the effect upon employment of “the insufficiency of the propensity to consume.”¹ It is certainly true that most Mercantilist writers were well aware of the fact that changes in the pattern and intensity of demand might radically affect the disposition of the social labour force. Their works abound with statements of the “spending is good for trade” type.² But these were generally more discriminating than is sometimes suggested today. “Liberality in the rich” was praiseworthy only if it was a disciplined liberality. Just as the Physiocrats, believing that the source of wealth lay in agriculture, condemned any consumption which had a detrimental effect on the supply of capital³ to agriculture, so the Mercantilists, believing that

¹ Keynes, *General Theory*, pp. 358 ff. “It is no new thing”, Keynes writes, “. . . to ascribe the evils of unemployment to . . . the insufficiency of the propensity to consume.” But after the publication of Mandeville’s *Fable*, Keynes asserts, the doctrine expressed in that work “did not reappear in respectable circles for another century, until in the later phase of Malthus the notion of the insufficiency of effective demand takes a definite place as a scientific explanation of unemployment”. Cf. D. H. MacGregor, *Economic Thought and Policy*, Chapter 4, *passim*.

² E.g. Berkeley asked “Whether the industry of the lower part of the people doth not much depend upon the expense of the upper”? and Barbon praised “liberality in the rich.” These and a number of similar statements are quoted in E. S. Furniss, *The Position of the Laborer in a System of Nationalism*, pp. 56–62. See also E. A. J. Johnson, *Predecessors of Adam Smith*, pp. 289–97.

the source of wealth lay in a favourable balance of trade, condemned any consumption which worsened the foreign trade position. Mun, for example, declared that the Commonwealth is no better than "an unthrift who spends beyond his means" when "through Pride and other Excesses they do consume more forraign wares in value than the wealth of the Kingdom can satisfie and pay by the exportation of our own commodities."¹ However, "the pomp of Buildings, Apparel, and the like" on the part of the rich is not to be condemned: "if it be done with curious and costly works upon our Materials, and by our own people, it will maintain the poor with the purse of the rich, which is the best distribution of the Common-wealth." But, Mun adds drily, "if any man say, that when the people want work, then the Fishing-trade would be a better employment, and far more profitable; I subscribe willingly."² The employment of the people in useful arts and manufactures, it was generally agreed, was an essential ingredient of national strength, and demand was an important factor in stimulating employment. But employment was not wanted for its own sake, and demand should therefore be directed only into those channels where the production which it fostered would be conducive to the growth of national wealth and prosperity. The emphasis placed by the nineteenth century under-consumptionists on the salutary effects of consumption was entirely different from this both in purpose and in quality—which is hardly surprising, since they and the Mercantilists lived in two different economic worlds.

The Mercantilist literature, however, contains not only positive injunctions in favour of spending, but also positive condemnations of "frugality", "thrift", "saving" and so on. So common are these that Heckscher is able to speak of the Mercantilists' "deep-rooted belief in . . . the evil of thrift".³ It cannot be too strongly emphasised, however, that in the majority of cases what was being condemned was simply *hoarding*, the withdrawal of money income from circulation. In one passage Mun speaks of a man taking a "Frugal course" and putting half his revenue "in his Chest",⁴ and this, I think, was the sort of operation which

¹ *England's Treasure by Forraign Trade* (1933 reprint), p. 26.

² *Ibid.*, p. 60.

³ *Mercantilism*, Vol. II, p. 208.

⁴ *England's Treasure*, p. 5. Mun himself did not condemn this type of frugality, but surely both he and those who *did* condemn it (e.g. Mandeville) were talking about much the same phenomenon.

the Mercantilists usually had in mind when they spoke of the evils of "frugality" and "saving". The Physiocrats had the same idea when they urged that the rich should not indulge in "*des épargnes stériles qui retrancheraient de la circulation et de la distribution une portion de leurs revenus ou de leurs gains*".¹ Sterile savings—i.e. hoarding—were harmful because they disrupted the process of circulation and had a deleterious effect on employment and business activity. This belief has been accepted by all subsequent schools of economic thought, including not only the early under-consumptionists, but also their opponents—even those who held most rigorously to Say's Law.² The controversies between Spence and Mill and between Malthus and Ricardo were conducted throughout on the explicit assumption, not that hoarding was harmless, but that it was a pathological phenomenon whose existence could safely be ignored. Spence and Malthus, in other words, meant by "frugality" something quite different from what the Mercantilist writers meant by it.

The Mercantilist emphasis on consumption had necessarily to give way before the Classical emphasis on accumulation, which was first systematised in Britain in the *Wealth of Nations*. The new attitude was not, of course, unheralded: French Physiocracy was, in the broadest sense, a theory of capital accumulation, and Smith no doubt learned much from Francis Hutcheson, whose account of profit and accumulation was somewhat similar to his³ and who consistently castigated *The Fable of the Bees*. But Smith's greatest teacher was the society in which he lived. He possessed that peculiar faculty, given only to the very great, of being able to discern in the world about him those features which although not preponderant now are destined to become so as the result of a process of social development. Writing on the eve of the industrial revolution, Smith foresaw the vital role which capital accumulation was to play in Britain in the near future. And since capital can be accumulated only by means of parsimony—i.e. by saving out of disposable revenue—the prodigal begins to appear in Smith's pages as a public enemy and the parsimonious man as a public benefactor.

¹ Quesnay, *Œuvres*, p. 335. Cf. *Maxime VII*, *ibid.*, p. 332.

² Cf. D. H. MacGregor, *op. cit.*, pp. 111 ff.

³ *A System of Moral Philosophy* (1755 edn.), Vol. I, Chapter 7 (particularly pp. 328-9), and Vol. II, Chapter 13 (particularly pp. 71-3).

This does not mean, however, that Smith believed consumption to be unimportant. On the contrary, he insisted that "consumption is the sole end and purpose of all production".¹ He was careful to contrast parsimony, not with consumption *per se*, but with "prodigality". "Prodigality" was not just conspicuous consumption, but conspicuous consumption which encroached upon capital. It was not just *faste*, but *luxe*. At the end of his chapter on accumulation, too, he discusses in detail the case of those individuals "whose expense just equals their revenue"—i.e. those who are neither prodigals spending more than their revenue nor frugal people spending less. Smith does not suggest that they alter their ways and become frugal; all he does is to argue that expenditure by them on durable commodities is likely to "contribute more to the growth of public opulence" than expenditure on things which are consumed immediately.² And, finally, Smith points out—no doubt addressing himself to those Mercantilists of his own day who still confused hoarding with accumulation—that:

What is annually saved is as regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a different set of people. That portion of his revenue which a rich man annually spends is in most cases consumed by idle guests and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves, as for the sake of the profit it is immediately employed as a capital, is consumed in the same manner, and nearly in the same time too, but by a different set of people, by labourers, manufacturers and artificers, who reproduce with a profit the value of their annual consumption.³

Nevertheless, it was Smith's emphasis on the social value of accumulation and the moral value of parsimony, rather than his remarks on consumption, which caught the imagination of the generation which followed him. That generation grew up at a time when capital accumulation and real income were beginning to increase rapidly and hand in hand; when accumulation was fast becoming the province of the capitalists rather than of the landed proprietors; and when the political

¹ *Wealth of Nations* (Everyman edn.), Vol. II, p. 155.

² *Ibid.*, Vol. I, pp. 310–12.

³ *Ibid.*, p. 302.

conflict between the capitalists and the landed proprietors was beginning to come to a head. Those whose sympathies lay with the new economic and political order seized on Smith's theory of accumulation to bolster up their approval, and some of them, going further than Smith himself had ever done, maintained that there was no limit to the amount of capital which could be accumulated in a country. Those who feared or were suspicious of the new order, on the other hand, asserted that there were definite limits to the accumulation of capital. Each group produced a theory of consumption to support its opinion. The first nailed its colours to the mast of Say's Law. The second argued that an over-rapid accumulation might be checked by a deficiency of effective demand, and that "unproductive consumers" (such as landlords, stockholders and clergymen), although they now contributed little to accumulation, might still play a useful social role by helping to maintain demand at the requisite level. This is obviously a greatly over-simplified account of the motives and content of a long and complicated controversy (for example, the last remark hardly applies to Sismondi!), but it does, I suggest, provide us with a useful frame in which to set the actual events.

III

William Spence seems to have been the first, at least in England, to put forward a more or less coherent under-consumptionist case. But there had already been a certain amount of softening-up. Smith himself, for example, had stated several times that profits tended to fall as accumulation increased.¹ Edmund Burke, in a remarkable passage in his *Reflections on the Revolution in France*, had argued that "the idle expences of monks" were useful in helping "to distribute the surplus product of the soil"—an argument which was essentially based on the Physiocratic scheme of circulation.² Germain Garnier, the French follower of the

¹ *Wealth of Nations*, Vol. I, pp. 78, 80 and 316. Cf. *Edinburgh Review*, October 1804, pp. 113 ff.

² Burke, *Select Works* (Clarendon Press edn., 1886), Vol. II, pp. 189-90. "In every prosperous community", Burke writes, "something more is produced than goes to the immediate support of the producer. This surplus forms the income of the landed capitalist. It will be spent by a proprietor who does not labour. But this idleness is itself the spring of labour; this repose the spur to industry". The idle monks and abbots, Burke proceeds, even though they do nothing but sing in the choir, are as usefully employed as if they worked from dawn to dusk in those "pestiferous occupations, to which by the social œconomy so many wretches are inevitably doomed. . . I am sure that no consideration, except the necessity of submitting to the yoke of luxury, and the despotism of fancy, who in their own imperious way will

Physiocrats and translator of Adam Smith, had stated in his *Abrégé des Principes d'Économie Politique* (1796) that although an individual's wealth would certainly increase through saving, that of a nation could increase only per medium of an expanded consumption;¹ and in the notes to his translation of Smith he had argued that in old countries, like those of Europe, in which capital had been accumulating over several centuries, there was an annual excess of produce "*dont la surabondance obstruerait la circulation, s'il n'était pas absorbé par une consommation proportionnée*".² And Lauderdale, in his influential *Inquiry*, had strongly attacked Smith's emphasis on parsimony, stressed the regulating role of demand, and insisted that "accumulation of capital must at all times have its bounds".³

Napoleon's threat of blockade may have been the occasion for the appearance of Spence's pamphlet, but it was hardly the cause. Spence himself admitted this in his rejoinder to Mill's *Commerce Defended*. Erroneous opinions in political economy, he said, "can be eradicated only by a frequent recurrence, whenever temporary topics have directed the public attention to the subject, to the great principles of the science".⁴ And Mill, too, was fully conscious of what was really at stake. He was in fact substantially in agreement with Spence's low estimate of the value of Britain's commerce,

distribute the surplus product of the soil, can justify the toleration of such trades and employments in a well-regulated state. But for this purpose of distribution, it seems to me, that the idle expences of monks are quite as well directed as the idle expences of us lay-loiterers". Spence made good use of this passage: see his *Tracts on Political Economy* (1822), pp. 162 and 257-8.

¹ Cited in Say, *Traité*, Vol. II, p. 397.

² *Recherches sur la Nature et les Causes de la Richesse des Nations* (1802), Vol. V (translator's notes), pp. 240-2. This statement, like that in the *Abrégé*, aroused the anger of Say (*Traité*, Vol. II, pp. 178-9) and probably inspired the first important statement of "Say's Law" (*ibid.*, pp. 175-9). The parallels between this controversy and the later controversies between Spence and Mill and between Malthus and Ricardo are extremely interesting.

³ *Inquiry into the Nature and Origin of Public Wealth* (1804), p. 265 and *passim*. Lauderdale has some claim to be regarded as the earliest British under-consumptionist. Although his first main example of accumulation "pushed beyond its due bounds" was a case of accumulation in excess of *physical need* (pp. 212 ff.), his discussion contained the elements of a theory of under-consumption which might have been capable of more general application (pp. 216-8). And consideration of his second example—suggested by contemporary Sinking Fund proposals—led him to formulate a number of general principles curiously similar to those subsequently put forward by Spence and Malthus (see, e.g., pp. 251-2 and 265-7). Spence, indeed, acknowledged Lauderdale's priority on the Sinking Fund question (*Tracts*, p. 81, footnote), and James Mill agreed that "his Lordship's arguments . . . are merely those of Mr. Spence extended. They are drawn from the same source, and applied to the same end" (*Commerce Defended*, 2nd edn., 1808, p. 96, footnote). But Lauderdale was hardly a Physiocrat: the most that can be said on this point is that his strictures on the Physiocrats were rather less severe than his strictures on Smith. See, however, Haney, *History of Economic Thought* (1st edn.), p. 301.

⁴ *Tracts*, p. 69.

and regarded this question as something of a side issue. "Had Mr. Spence directed his efforts", Mill wrote, "to moderate our ideas of the value of commerce, without teaching other doctrines which, first, were false, and next led to practical conclusions of the most dangerous tendency, he might have been of service to his country".¹ Spence had maintained that there were definite limits to the accumulation of capital, and that the then fashionable emphasis on the importance of parsimony was therefore misplaced. And, what was worse, he had maintained that even though the landlords and other unproductive classes now tended to spend rather than to save their revenue, they still performed a useful social function—and, indeed, that their continued and progressively increasing expenditure was essential to prosperity. Mill immediately recognised that these doctrines were actually an attack on the new order by a partisan of the old.

Spence was probably the first to see clearly that the Physiocratic pattern of production and demand, as displayed in *Quesnay's Tableau*, could with appropriate modifications provide the framework for a theory of under-consumption which would at the same time serve as a critique of capitalism and a vindication of the unproductive consumption of the landlords. The Physiocratic scheme provided, first, the notion that the "real value" of manufactured commodities was precisely equal to the value of the raw materials and subsistence goods which had been physically used up in their manufacture, so that any net profit yielded on capital employed in manufacture must be conceived as arising in the process of exchange rather than in the process of production. It provided, secondly, the basic idea that those employed in the manufacturing trades were subsisted by and dependent upon the expenditure of the agricultural surplus by the landed proprietors.² From these two principles it was quite legitimate to conclude, as Spence did, that the net income of the manufacturing capitalists was not an original but a derived revenue, and that any accumulation of capital out of their

¹ *Commerce Defended*, pp. 107-8.

² Spence recognised that they might also draw subsistence from the portion of the surplus received by the farmers, but argued that "the class of farmers may . . . be considered, with relation to the net *profit* they make, as belonging to the class of land proprietors" (*Tracts*, p. 28, footnote)—thereby by-passing one of the central difficulties of French Physiocracy. Spence was by no means a consistent Physiocrat: he argued, for example, that even though all taxes fell ultimately upon the land, the land was *not* "the only proper source of taxation" (*Tracts*, pp. 140-1). When politics conflicted with Physiocracy, Spence always allowed politics to prevail.

profits "would be at the expense of the land proprietors".¹ But it was *not* legitimate to conclude, as Spence also did, that in European societies "expenditure, not parsimony, is the province of the class of land proprietors, and . . . it is on the due performance of this duty, by the class in question, that the production of national wealth depends".² The French Physiocrats would have repudiated this suggestion (within the limits defined in the first section of this article), since it was precisely "parsimony" on the part of the proprietors—i.e. the sinking of a large portion of the *produit net* in agricultural improvements—that they were most anxious to encourage. They clearly regarded such "parsimony" as constituting a transfer and not a diminution of demand.

It is important that Spence's argument should be reproduced in a little more detail, since several of the points he makes will be met with again later. In European societies, he says, it is a condition essential to the creation of national wealth—

that the class of land proprietors, expend the greater part of the revenue which they derive from the soil. They are the agents, through whose hands the revenue of the society passes, but in order that wealth and prosperity should accrue to the community, it is absolutely necessary, that they should spend this revenue. So long as they perform this duty, every thing goes on in its proper train.

Smith's arguments in favour of parsimony, Spence proceeds, "seem to be intended to maintain, that fresh capital may be profitably employed, in manufacturing goods which nobody will buy: for, certainly, no purchasers could be found for the goods brought into existence by the employment of new capital, if all the members of the society were to convert the greater part of their revenue into capital". And Spence gives an example designed to show what would happen if the proprietors "ceased to expend":

Let us make the supposition that fifty of our great land owners, each deriving 20,000*l.* a year from his estates, which they had been accustomed to spend . . . resolved not to spend, but to save, the 1,000,000*l.* which their revenue amounted to. Is it not self-evident, that

¹ *Tracts*, pp. 13–16.

² *Ibid.*, p. 32.

all those members of the manufacturing and unproductive classes, who had, directly, or indirectly, been accustomed to draw the revenue destined for their subsistence, from the expenditure of this sum, would have their power of consuming the produce of the earth diminished, by the whole amount of this 1,000,000*l.* ?

Spence goes on to consider the evil effects of this "saving scheme", and then tries to answer the obvious objection that "as this supposed sum would not be hoarded, . . . but would be lent on interest : It would still be employed in circulation, and would still give employment to manufacturers". To this objection he replies :

It should be considered, that money borrowed on interest, is destined, not for expenditure, but to be employed as capital ; that the very circumstance of lessening expenditure, decreases the means of the profitable employment of capital, and, consequently, that the employment of the sum alluded to as capital, would in no degree diminish the hardships of those who had been deprived of the revenue derived from its expenditure.

Spence's argument closes with an attempt to show that for the "constantly progressive maintenance of the prosperity of the community" it is necessary not only that the class of proprietors should spend, but also that "this class should go on progressively increasing its expenditure". Prosperity will induce an increased population—and "how is this increased population to be subsisted, unless the class, from whom the revenue of the whole is derived, proportionably increases its expenditure ?" Two final conclusions are drawn—first, that the increase of luxury is absolutely essential to the well-being of European countries, and second, that "all taxes, however levied, in the end fall upon the soil, and are eventually borne by the land proprietors".¹

Mill's reply to all this can be conveniently divided into two parts. First, he draws on Adam Smith in order to attack Spence's key proposition—the idea that the act of saving, even when the savings are invested, somehow reduces the volume of effective demand. "Let not Mr. Spence be alarmed", says Mill—

Let him rest in perfect assurance, that the whole annual produce of the country will be always very completely

¹ Quotations from *Tracts*, pp. 29-36.

consumed, whether his landholders choose to spend or to accumulate. . . . No man, if he can help it, will let any part of his property lie useless and run to waste. . . . That part, however, which is destined for future profit, is just as completely consumed, as that which is destined for immediate gratification.

Second, Mill attacks Spence's assertion that a country can have too much capital. "A nation always has within itself a market equal to all the commodities of which it can possibly have to dispose", Mill contends, and puts forward his well-known version of "Say's Law" as proof:

The production of commodities creates, and is the one and universal cause which creates a market for the commodities produced. . . . If a nation's power of purchasing is exactly measured by its annual produce, as it undoubtedly is; the more you increase the annual produce, the more by that very act you extend the national market, the power of purchasing and the actual purchases of the nation. Whatever be the additional quantity of goods therefore which is at any time created in any country, an additional power of purchasing, exactly equivalent, is at the same instant created; so that a nation can never be naturally overstocked either with capital or with commodities; as the very operation of capital makes a vent for its produce. . . . It may be necessary, however, to remark, that a nation may easily have more than enough of any one commodity, though she can never have more than enough of commodities in general. The quantity of any one commodity may easily be carried beyond its due proportion; but by that very circumstance is implied that some other commodity is not provided in sufficient proportion.¹

¹ Quotations from *Commerce Defended*, pp. 65-68. It should be noted that Mill's two arguments are logically distinct. The first, the "saving is spending" argument, states that unhoarded savings are spent—i.e. that accumulation, or saving-plus-investment, does not reduce the total volume of demand. The second, "Say's Law" proper, states that in the last analysis supply and demand must always be equal and that therefore a general glut of commodities is impossible. It is obviously possible to accept the "saving is spending" argument while rejecting "Say's Law". It is true, of course, that an acceptance of "Say's Law" implies an acceptance of the "saving is spending" argument; but it is *not* true that "Say's Law" implies "the notion that if people do not spend their money in one way they will spend it in another" (Keynes, *General Theory*, p. 20). "Say's Law" assumed that hoarding was unlikely; it did not imply that it was impossible. The villain of the piece is not so much "Say's Law"—which, after all, was not an integral part of the Classical theoretical structure—but the neo-Classical theory of interest, to which the Classical economists properly so-called did not subscribe. Cf. D. H. MacGregor, *op. cit.*, pp. 111-18.

Spence's rejoinder to Mill's attack is not particularly impressive. He insists that it was his aim "not to argue against the accumulation of capital in general, but against its accumulation in excess, and particularly by the class of land owners". He seems to admit the principle of the Smith-Mill "saving is spending" argument, but denies its relevance to the question at issue. "We can come to a solid determination", he asserts, "only by putting an extreme case,—by inquiring what would be the result if *all* the land holders were to save their revenue". If they employed their savings as agricultural capital, then "the system of society must undergo a total change. All the manufacturers and idlers, which comprise five-sixths of the community, must become cultivators, or they must starve". But such a scheme would be "stark nonsense": the landholders would obviously refuse to "employ their revenue in feeding twelve millions of people to do work which may be performed by two millions". If, on the other hand, they employed their savings as manufacturing capital, "then all the manufacturing capital before existing, would be useless", while if they did not employ it themselves but lent it to the master manufacturers it would be impossible for employment to be found for so much additional capital "at the moment when those who are to employ it have lost customers for their articles to the same amount". So far as Mill's formulation of "Say's Law" is concerned, Spence frankly confesses that he is unable to understand it. Does Mill mean to assert, he asks, "that capital may be employed *ad infinitum* in producing new manufactures, while no addition is made to agricultural capital"? He has little difficulty in disposing of this suggestion:

Additional capital can be employed in new manufactures only when there are fresh hands to be engaged. Now, how could Mr. Mill support his increased population, if there were no increase of food provided for them? Half of his manufacturers might make shoes, and the other half coats; but while they were starving for want of bread, it would be a poor consolation to tell them that they might exchange one for the other.¹

This idea, that the extension of manufacture is limited by the size of the agricultural surplus, was perfectly familiar, having been popularised in Britain by writers like Cantillon,

¹ Quotations from *Tracts*, pp. 152-62.

Steuart, Paley and Malthus, and Mill would not have dreamed of disputing it as a general principle. It was, of course, true that a nation could have too much of a *particular type* of capital. But Mill—and Ricardo, whose friendship with Mill began at the time of the publication of *Commerce Defended*—refused to be converted to the view that it could have too much of capital *in general*.

IV

Although the “temporary topics” which had provided the occasion for Spence’s pamphlet soon ceased to agitate the mind of the public, the theoretical problems associated with the idea of under-consumption continued to be debated during the next decade. Chalmers, for example, argued that “It is the degree of expenditure . . . which imposes a limit on the use and extension of capital, and if universal accumulation were to go on, the increase of capital and diminution of expenditure would reduce the profit to a mere nothing, and all further inducement to accumulation would cease”.¹ Interesting accounts of certain aspects of the problem were contained in the works of Buchanan and Mrs. Marcet.² Malthus and Ricardo corresponded with one another on the general glut question in 1814, and at the same time the new theory of rent was worked out—a theory which enabled Ricardo to blame the falling rate of profit on a factor which operated outside the economic system itself.³ Simon Gray, in his unduly neglected work *The Happiness of States*, gave a surprisingly “modern” account of the effects which “stag-nations in the foreign market” might have on demand and employment at home, and the remedies which should be applied to meet the situation.⁴ And after the crisis of 1815 Robert Owen hastened to popularise the notion that the cause of all the trouble lay in the fact that the productive power of the nation had increased enormously “without increasing the power of consumption in the same proportion”.⁵

¹ *Enquiry into the Extent and Stability of National Resources* (1808), p. 237. Chalmers at this time believed that there was “little danger” of this happening.

² Buchanan, *Observations* (1814), pp. 75–9; Jane Marcet, *Conversations on Political Economy* (1816), Chapter 22, *passim*.

³ Ricardo, *Letters to Malthus*, pp. 34–55, and *Principles*, Chapter 21, *passim*.

⁴ *The Happiness of States* (1815), pp. 83–91.

⁵ *The Life of Robert Owen* (1858), Vol. IA, p. 110. Cf. also pp. 54–5 and 213–6 *ibid.*, and the Owenite pamphlet *Mr. Owen’s Arrangements, etc.* (1819), *passim*. Another contemporary work with under-consumptionist tendencies (see pp. xvii–xx, 365–7, 386–90, etc.)—David Laurie’s *Treatise on Finance* (1815)—is referred to by D. H. MacGregor, *op. cit.* p. 122, footnote.

But the next really important event in the history of theories of under-consumption was the publication in 1819 of Sismondi's *Nouveaux Principes d'Économie Politique*. Whereas Spence, Malthus and Chalmers wrote on behalf of the landlords and "unproductive consumers", Sismondi, although by no means a socialist,¹ wrote on behalf of the proletariat. His main aim was to emphasise and explain the disproportion between production and consumption which appeared to have become chronic in the modern world. He never ceased to castigate those economists who maintained that consumption was "*une puissance sans bornes, toujours prête à dévorer une production infinie*".² Nothing was easier, he believed, than for production and consumption to get out of step with one another.

Sismondi's treatment of this theme can perhaps be discussed under two separate headings without unduly distorting his meaning. First, he interested himself in the social and economic causes of those rigidities, immobilities, time-lags and other frictions which prevented equilibrium being reached as smoothly and painlessly as it was assumed to do in the works of the "chrematistical" economists. He never sought seriously to deny that under capitalism there were powerful tendencies towards a state of equilibrium: he was too earnest a disciple of Smith for that. What he did deny was that this equilibrium could ever in fact be achieved, under the institutional set-up peculiar to modern capitalism, except at the cost of appalling suffering for the working people. And the frictions which caused economic dislocations, he believed, were inherent in rather than excrescent upon the modern industrial system. The impossibility of accurately forecasting the demand for one's product, the comparative immobility of specialised labour and fixed capital, the displacements caused by the introduction of machinery, and even the difficulty of adjusting population to revenue—all these were conceived by Sismondi to be essentially modern phenomena, associated almost exclusively with industrial capitalism.³

¹ Marx and Engels, in the *Communist Manifesto*, after a generous appraisal of the positive elements of Sismondi's teaching, say that it "aspires either to restoring the old means of production and of exchange, and with them the old property relations, and the old society, or to cramping the modern means of production and of exchange within the framework of the old property relations that have been, and were bound to be exploded by these means. In either case, it is both reactionary and Utopian. Its last words are: Corporate guilds for manufacture; patriarchal relations in agriculture". Quoted from *A Handbook of Marxism* (1935), p. 50.

² *Nouveaux Principes* (1st edn. 1819), Vol. I, p. 78.

³ *Ibid.*, Vol. I, pp. 301-13, and Vol. II, pp. 256-65; *Études sur l'Économie Politique* (1837), Vol. I, pp. 142-54.

Second, Sismondi sought to penetrate even further below the surface of economic reality in order to reveal certain more general and deep-seated tendencies towards under-consumption. Here, like Marx, he was convinced that the fact that the labourer had been dispossessed of his means of production was the key to a proper understanding of the forces at work. "*Nous sommes*", he wrote in the *Études*, "*et l'on ne l'a point assez remarqué, dans une condition tout-à-fait nouvelle de la société, sur laquelle nous n'avons point encore d'expérience. Nous tendons à séparer complètement toute espèce de propriété d'avec toute espèce de travail, à rompre toute clientèle entre le journalier et le maître, à ôter au premier toute espèce d'association dans les profits du second*". This separation of property and toil forced the labourer into a state of dependence upon the capitalist, so that his income tended always to be reduced to the minimum of subsistence. The income of the capitalists and landed proprietors, on the other hand, tended to increase as time went on, and this ever-widening inequality of distribution made a smooth adaptation of production to demand absolutely impossible :

*Le même revenu est bien employé par le riche et par le pauvre, mais il n'est pas employé de la même manière. Le premier remplace beaucoup moins de travail que le second ; il favorise beaucoup moins la population, et sert par conséquent bien moins à la reproduction de la richesse. . . . Si le même revenu est distribué entre quatre-vingt-dix-neuf familles très-misérables, et une très-opulente, l'encouragement qu'elles donneront à l'industrie nationale sera infiniment moindre. . . . Il est assez digne de remarque que, tandis que l'effet de l'augmentation des capitaux, est en général de concentrer les travaux dans de très-grandes manufactures, l'effet des grandes richesses est d'exclure presque absolument les produits de ces très-grandes manufactures, de la consommation des riches. Chaque fois qu'un objet, auparavant produit par l'habileté d'un ouvrier, devient l'ouvrage d'un mécanisme aveugle, il perd quelque chose de sa perfection, comme aussi de son crédit aux yeux de la mode. . . . Ainsi donc par la concentration des fortunes entre un petit nombre de propriétaires, le marché intérieur se resserre toujours plus, et l'industrie est toujours plus réduite à chercher ses débouchés dans les marchés étrangers, où de plus grandes révolutions la menacent.*¹

¹ Quotations from *Études*, Vol. I, pp. 91-2, and *Nouveaux Principes*, Vol. I, pp. 329-42.

Once property and labour had been separated, the system of competition replaced that of associative effort. Under conditions of capitalist competition, production tended to be regulated not according to the actual demand for one's product (which could never be exactly determined) but according to the size of one's capital, with the result that there was a permanent tendency towards over-production. Each producer would strive to produce more and to sell at a lower price than his competitors; he would seek to reduce his costs of production by paying less rent to the landlord, less interest to the rentier, and less wages to the labourers; and he would actually succeed in reducing these payments, since the impact of the increased output on the market would lower the price of the product for all producers. As a result of such operations there would be a constant tendency for output to increase and for consuming power to diminish or at least not to increase in the same proportion—a tendency which would be intensified by the displacement of labour due to the introduction of machinery and by the extension of bank credit. To this argument it might be objected that the additional capital employed to increase production would in fact be spent, and that demand would accordingly increase proportionately with production. It was quite true, Sismondi admitted, that invested savings were spent; but since the price per unit of the factors of production tended to diminish as production increased, it was still true to say that "*la consommation ne marchera point d'un pas égal avec la production*".¹

Sismondi was free from any desire to apologise for the "unproductive consumers" of his day, and he did not commit the vulgar error of supposing that invested savings remained unspent. And it seems at first sight that he also succeeded in emancipating himself from those Physiocratic ideas in which most of the other early under-consumptionists were still to some extent entangled. The theoretical basis upon which Sismondi built, for what it was worth, was taken from Smith rather than from Quesnay. The influence of Physiocratic ways of thought is much less obvious in Sismondi's case than in, say, Spence's, since Sismondi deliberately attempted to discard the Physiocratic framework. Yet there are certain

¹ *Études*, Vol. I, pp. 144-51; *Nouveaux Principes*, Vol. I, pp. 374-84. There was, of course, no real reason why monetary demand *should* increase proportionately with physical productivity. Sismondi seems to have modified his views on this subject after an interview with Ricardo: see the long note commencing on p. 81 of Vol. I of the *Études*.

aspects of his work which on closer examination seem to suggest that we would be unwise to place Sismondi too far outside the Physiocratic pale. There is, to begin with, his marked preference for an agricultural over a manufacturing economy, and the distinctly Physiocratic tone of some of the passages in which he states it.¹ Again, the dependence of the manufacturing sector upon the agricultural sector, and the importance of achieving a proper "balance" between them, are often emphasised.² And sometimes he even seems to accept the idea that the incomes of the manufacturing classes are ultimately paid out of the *produit net* accruing to the proprietors and cultivators.³ In themselves such passages are not particularly significant: similar remarks—though not often in such profusion—are quite frequently to be found in the works of contemporary authors who can scarcely be accused of any attachment to Physiocracy. But it will be argued in the last section of this article that their occurrence in Sismondi's work was not fortuitous, and that his treatment of some of the leading under-consumptionist themes was strongly influenced by ways of thought which were essentially Physiocratic.

V

It is quite possible that Malthus borrowed more from Sismondi than he was prepared to acknowledge. Some of the leading ideas of Book Two of the *Principles of Political Economy* may well have owed their origin to passages in the *Nouveaux Principes*.⁴ But there are at least two features of Malthus's approach, quite apart from the obvious political divergences, which mark it off sharply from Sismondi's and which it is necessary to consider if Malthus's particular brand of under-consumption theory is to be placed in its proper perspective.

In the first place, Malthus's leanings towards Physiocracy were much more direct and conscious than were Sismondi's. Book Three of the second edition of the *Essay on Population*

¹ E.g., *Nouveaux Principes*, Vol. I, pp. 150–52. Cf. M. Tuan, *Sismondi as an Economist*, p. 47.

² *Nouveaux Principes*, Vol. I, pp. 292, 296–300, 372–3, etc.

³ E.g. *Études*, Vol. II, pp. 246–7.

⁴ For example, Malthus's idea that the consumption of the labourers employed in making a commodity can never alone furnish an adequate market for it, and the broad conclusions he drew from this idea, are clearly foreshadowed in Chapters 4 and 5 of Book 2 of the *Nouveaux Principes*. And the fact that an increase in accumulation must be preceded by an increase in the national revenue if over-production is to be avoided is emphasised strongly by Sismondi in Chapters 3 and 4 of Book 4. Cf. Marx, *Theorien über den Mehrwert* (French edn.), Vol. VI, pp. 81 ff., and M. Tuan, *op. cit.*, pp. 56–7 and 66–7.

contained, indeed, some of the most Physiocratic passages which had appeared in British economic writing since Cantillon. Malthus pointed out that Smith's definition of the wealth of a nation as "the annual produce of its land and labour" involved a dangerous abstraction from the physical characteristics of the commodities produced. "Wealth" according to Smith's definition, might increase while the condition of the labouring poor actually worsened. For example, if a nation's savings over a period were invested solely in manufacture and not in agriculture, its "power of supporting labourers" would at best remain static, and even if the poor retained the same command over the necessities and conveniences of life a greater proportion of them than before would be employed in manufacture, an occupation much more unhealthy and precarious than agriculture. Malthus then went on to compare the Physiocrats' definition of wealth with that of Smith, and although he criticised the Physiocrats in certain respects he adopted a number of their basic premises. For example, he said that manufactures, strictly speaking—

. . . are no new production, no new creation, but merely a modification of an old one, and when sold must be paid for out of a revenue already in existence, and consequently the gain of the seller is the loss of the buyer. A revenue is transferred, but not created.

He proceeded to contrast the "surplus produce of the cultivators", which was measured by rent, with a "net monied revenue, arising from manufactures": whereas the former would support all those people in the nation who did not labour on the land, a "net monied revenue" of the same extent would simply "throw the country in which it existed into an absolute dependence upon the surplus produce of others". Then again, he asserted that "Land, in an enlarged view of the subject, is incontrovertibly the sole source of all riches"; that the system of the Physiocrats was the only one "by which commerce and manufactures can prevail to a very great extent, without bringing with them, at the same time, the seeds of their own ruin"; that "the surplus produce of the land is the fund which pays everything besides the food of the cultivators"; that English commerce and manufactures (whose "shewiness" blinded people to the true position) were really the consequence

rather than the cause of "the wealth, power, and prosperity of England"; and that the superiority of England over France lay primarily in the "great surplus produce" which English agriculture produced and which "enables her to support such a vast body of manufactures, such formidable fleets and armies, such a crowd of persons engaged in the liberal professions, and a proportion of the society living on money rents, very far beyond what has ever been known in any other country of the world". And, finally, he insisted that whichever of the two definitions of wealth was adopted—

. . . the great position of the Economists will always remain true, that the surplus produce of the cultivators is the great fund which ultimately pays all those who are not employed upon the land. Throughout the whole world, the number of manufacturers, of proprietors, and of persons engaged in the various civil and military professions, must be exactly proportioned to this surplus produce, and cannot in the nature of things increase beyond it. . . . In proportion as the labour and ingenuity of man, exercised upon the land, have increased this surplus produce, leisure has been given to a greater number of persons to employ themselves in all the inventions which embellish civilized life. And though, in its turn, the desire to profit by these inventions, has greatly contributed to stimulate the cultivators to increase their surplus produce; yet the order of the precedence is clearly the surplus produce.

It is true that many of these statements were eventually purged as the *Essay* proceeded through its successive editions, but there is no doubt that Malthus retained to the end at least three of the leading ideas—that agriculture was superior to manufacture, that the agricultural surplus held a key position in the economy, and that it was dangerous to abstract from the physical characteristics of the commodities produced when framing one's basic model.¹

¹ Quotations from *Essay* (2nd edn., 1803), pp. 420–42. A number of important changes were made in this part of the work in the third and fourth editions, many of them designed to weaken the links with Physiocracy. During the gap of ten years between the fourth and fifth editions, Spence's pamphlet appeared, claiming Malthus as a fellow-traveller of the Physiocrats, and Ricardo criticised the Physiocratic chapters in personal conversation with Malthus (*Letters to Malthus*, p. 107). Possibly these events—and of course contemporary economic developments—were responsible for the radical rearrangement and rewriting of these chapters in the fifth edition of 1817. The last passage quoted above was the only one which survived without substantial amendment—and even in that the substance of the first sentence was omitted,

In the second place, Malthus's theory of value was much more developed and much more closely integrated with his under-consumption theory than Sismondi's. Sismondi had contented himself with distinguishing between what he called the "intrinsic value" and the "relative value" of a commodity—" *l'une s'établit par la production, l'autre par la concurrence* ".¹ Malthus, on the other hand, deliberately set out to attack not only the labour theory as Ricardo had developed it but also the very foundations of the Smith-Ricardo concept of value. Adam Smith, rejecting the old "physical cost" concept of value and the Mercantilist idea of "profit upon alienation", had identified exchange value with "natural price"—that is, a price sufficient to cover the costs of production *including profit at the customary rate*. Under conditions of competitive equilibrium, when supply and demand were assumed to balance, all commodities tended to sell at a value equivalent to this "natural price", although deviations of the actual "market price" from the value or "natural price" of the commodity might be caused by temporary discrepancies between supply and demand. If, then, relative prices tended to be determined by relative costs of production, what determined costs of production? As is well known, Smith vacillated between a "labour commanded" and a "labour embodied" explanation, while Ricardo definitely accepted the latter. Malthus began his attack on this structure by arguing that the prices of monopolised commodities and agricultural products—"a class of commodities of the greatest extent"—were almost always "determined upon a principle distinct from the cost of production". And even in the case of manufactured products, where "the existing market prices much more frequently coincide with the costs of production", Malthus argued that our experience shows us—

. . . that any alteration in the proportion of the demand to the supply quite overcomes for a time the influence of these costs; and further, when we come to examine the subject more closely, we find that the cost of production itself only influences the prices of these commodities, as the payment of this cost is the necessary condition of their continued supply in proportion to the extent of the effectual demand for them.

¹ *Nouveaux Principes*, Vol. I, pp. 281-6. The context shows clearly that Sismondi, like Malthus, was anxious to use the distinction as the basis for a demonstration that the realisation of a surplus over cost was largely dependent upon the conditions of demand.

If this be true, Malthus concluded, "it follows that the great law of demand and supply is called into action to determine what Adam Smith calls natural prices, as well as what he calls market prices."¹ It follows, too, that the quantity of labour either commanded by or embodied in a commodity cannot *determine* the value of the commodity, although it may be capable of use as a *measure* of its value. In Malthus's opinion the value of a commodity was *determined* by supply and demand and its best *measure* was the amount of labour the commodity would command. Now if the commodity is to be sold at a profitable price, the amount of labour which it commands must be greater than the amount of labour which is embodied in it, the excess representing the profit yielded. And it is obvious that the consumption of the labourers directly employed in the production of the commodity cannot alone furnish an adequate demand for it: the selling price, if a profit is to be earned, must exceed the wage-costs. If one adopts this way of looking at the process of production and exchange one may easily be led, as Malthus was, to assert that the size of the excess—and, indeed, its very existence—is dependent upon the effective demand for the product exercised by those who are not directly employed in its production.² And a bias towards Physiocracy will encourage this view, if only because the idea that profits (at least in manufacture) do not originate in the process of production but are somehow paid out of the incomes of the purchasers is of the essence of the Physiocratic framework.

Malthus believed that this line of thought could provide an effective answer to the "saving is spending" argument with which Ricardo, Say and Mill were endeavouring to protect themselves against the under-consumptionist attack. Malthus, it must be emphasised, always meant saving-*plus-investment* when he spoke of "accumulation", "parsimony" or "saving". "No political economist of the present day", he wrote, "can by saving mean mere hoarding".³ By "saving" Malthus meant exactly what all the British Classical economists meant by it—the employment of "productive" instead of "unproductive" labourers out of the

¹ *Principles*, (2nd edn., 1836), pp. 70–71.

² Malthus did not deny that the state of cultivation of the land ultimately and in the last resort governed profits. But he relegated this cause to the status of a "limiting principle", and postulated "the state of the demand and the supply" as the "regulating principle". Cf. *Letters to Malibus*, p. 47, and Malthus's *Principles*, pp. 271–82.

³ *Principles*, p. 38.

net revenue.¹ It could not, therefore, be denied that when additional savings were made they were in actual fact transferred to and spent by the labourers who were employed by them; but, as we have seen, it *could* be denied that the demand of these workers alone was sufficient to enable the product to be sold at a profitable price. Whence, then, was the necessary extra demand to come? It could hardly come from the capitalists, since by hypothesis they were saving-and-investing more and therefore spending less on personal consumption. It seemed obvious to Malthus that the extra demand could only come from the community's "unproductive consumers"—the landlords, stock-holders, menial servants, clergymen, etc. who consumed but did not produce and who were therefore capable of maintaining "such a balance between produce and consumption as will give the greatest exchangeable value to the results of the national industry". It followed that if saving-and-investment increased rapidly without a "previous increase in the value of the national revenue" (the most potent cause of which was an increase in the expenditure of unproductive consumers), a number of commodities would be produced which could not be sold at a profitable price. This glut of commodities would cause such a reduction of profits "as very greatly to diminish both the power and the will to save".²

This somewhat precarious thesis Malthus endeavoured to support with all the subsidiary arguments he could muster. Accumulation, he admitted, was certainly a *condition* of the increase of wealth, but by itself it did not afford an adequate stimulus to that increase. Those who believed the contrary,

¹ Malthus makes this perfectly clear in literally dozens of places, and it would not be necessary to insist upon the point here were it not that a certain amount of misunderstanding seems to exist among modern commentators. Mr. O'Leary, for example (*Journal of Political Economy*, Vol. L, pp. 910-11), is puzzled by the fact that Malthus did not state definitely anywhere that hoarding plays "a significant role in aggravating a deficiency in effective consumer demand". Mr. O'Leary seems to feel, however, that Malthus must have meant it even if he did not definitely say it, and, on the very slightest textual evidence, concludes that "in Malthus' theory excessive savings cause a damming-up of idle purchasing power, but he was not altogether clear as to where the damming-up process takes place". There is, however, another possible solution to the mystery—that Malthus's argument was simply a bad one. It is amusing, in the light of certain modern discussions on this point, to read Malthus's own comments on an author who identified saving with hoarding: see *Essay* (1st edn., 1798), pp. 282-4 and 295-7.

² Quotations from *Principles*, pp. 413, 365 and 315. There is not a great deal in common between Malthus's theory and those which are generally associated with the Keynesian analysis to-day. Not only does Malthus deliberately assume that savings are automatically invested, but he also implies that an increase in investment will widen and not narrow a gap between effective demand and supply. If Ricardo committed a gross heresy in arguing that demand for commodities is not demand for labour, surely Malthus committed an even grosser one in arguing that demand for labour is not—or at least is not sufficient—demand for commodities.

he remarked (with some justice), "have considered commodities as if they were so many mathematical figures, or arithmetical characters, the relations of which were to be compared, instead of articles of consumption, which must of course be referred to the numbers and wants of the consumers". They have also failed to take into consideration "the influence of so general and important a principle in human nature, as indolence or love of ease". They have assumed that "the consumption of the labourers employed by those whose object is to save, will create such an effectual demand for commodities as to encourage a continued increase of produce". They have assumed that in the process of saving all that was lost by the capitalist is gained by the labourers—but if the general glut that follows over-accumulation creates unemployment, how can Ricardo be right in saying that in such a case "the check to the progress of wealth would be but temporary"? Obviously a "previous increase in the value of the national revenue" is required, both to give the necessary stimulus to accumulation and to make that accumulation "effective in the continued production of wealth". The causes most favourable to this increase in value are "the division of landed property", "internal and external commerce", and, last but not least, "the maintenance of an adequate proportion of the society employed in personal services, or otherwise entitled to make a demand for material products without contributing directly to their supply". The capitalists have the power but not the will to consume their revenue, since "the great object of their lives is to save a fortune" and therefore "they could not afford an adequate market to each other by exchanging their several products". In the class of unproductive consumers "the landlords no doubt stand pre-eminent", but "if they were not assisted by the great mass of individuals engaged in personal services, whom they maintain, their own consumption would of itself be insufficient to keep up and increase the value of the produce".¹

Ricardo had admitted, in his *Principles*, that "If every man were to forego the use of luxuries, and be intent only on accumulation, a quantity of necessities might be produced, for which there would not be any immediate consumption. Of commodities so limited in number, there might undoubtedly be a universal glut." But this was as far as

¹ Quotations from *Principles*, pp. 361-7, 320, 322, 326, 365-6, 372 and 400.

he was prepared to go, and even this case, he believed, did not "impugn the general principle".¹ If such a thing happened (which was, to say the least, extremely unlikely), "profits would be low because wages would be high", and in any event the condition would only be temporary since the principle of population would eventually rectify matters.² And Ricardo emphasised that he had only admitted that "*of commodities so limited in number*" there might be a universal glut. But, in actual fact—

Would only such a limited number of commodities be produced? Impossible, because the labourers would be glad to consume conveniences and luxuries if they could get them, and in the case supposed to promote the very object of the masters it would be in their interest to produce the commodities for which their labourers had the will and power to pay.³

Ricardo's attitude on this point is typical of his attitude to the whole of Malthus's argument. In his own reasoning he always assumed, first, that the pattern of class demand would automatically change as class income varied, and, second, that production would speedily adapt itself to any marked change in the pattern of demand.⁴ Malthus, on the other hand, often appeared to base his belief in the possibility of a general glut either on the assumption that the pattern of class demand (particularly working class demand) might remain unaltered for long periods in spite of changes in income,⁵ or on the assumption that production would fail to adapt itself to changes in the pattern of demand. An "inordinate passion for accumulation", Malthus wrote, will inevitably lead to a supply of commodities beyond what the "structure and habits" of society will permit to be profitably consumed.⁶ Ricardo was not prepared to allow that the "structure" (of production) and "habits" (of consumption) under competitive capitalism were as rigid as Malthus supposed, but the real difference between the two men lay deeper than this. It was not so much that they differed over the degree of rigidity of the "structure and

¹ *Works* (ed. McCulloch), p. 176.

² *Notes on Malthus*, p. 159.

³ *Ibid.*, p. 166.

⁴ Cf. *Letters to Malthus*, p. 49.

⁵ Cf. the letter from Malthus to Ricardo quoted in Keynes, *Essays in Biography*, p. 140; also *Principles*, p. 321.

⁶ *Principles*, p. 325.

habits" of their own society, as that they each envisaged their own society *in terms of a different assemblage of "structure and habits"*. Whereas Ricardo's model was built on the basis of concepts and patterns appropriate to a developed capitalist society, Malthus on occasions still tended to think in terms of certain ideas and relationships which were appropriate to an older type of society—a society which was essentially Physiocratic in character.

VI

The last two under-consumptionist works to be considered in this article—the anonymous pamphlet *Considerations on the Accumulation of Capital, etc.* (1822) and Thomas Chalmers' *Political Economy* (1832)—need not detain us long.

The *Considerations* does little more than echo Malthus, and its only real virtue lies in the fact that its complete lack of subtlety exposes in a rather startling manner a number of the contradictions implicit in Malthus's contribution. The basic assumptions are the same: that a commodity must command more labour than is embodied in it, that value is determined by supply and demand, that the workers will never demand anything but necessities even if their income increases,¹ and so on. In two respects the author goes rather further than Malthus: he states in one place that "the proportion in which the net revenue of a country is saved and spent must be practically the great regulator of profits"; and towards the end of the pamphlet he maintains quite categorically that demand for labour is not demand for commodities.² And in one section he outlines with some precision the nature of the "structure and habits" of the type of economy which both he and Malthus tended to take as their model. It is obviously necessary, he argues, that net revenue should be partly spent unproductively and partly saved if wealth is to increase, but how is the proper proportion between saving and spending to be determined? This must, he answers, "in every particular country, depend upon its situation and circumstances generally, but more particularly on the fertility of its land". Enlarging on the latter point, he goes on as follows:

¹ *Considerations*, pp. 11–12. Cf. Sismondi, *Nouveaux Principes*, Vol. I, pp. 80–81.

² *Considerations*, p. 30, and pp. 39 ff.

A country whose soil was of so poor a quality as to yield but little more than sufficient to maintain the cultivators, could not possibly support a very large body of unproductive consumers ; while one whose lands were of great natural or acquired fertility would not only be enabled to maintain a considerable body of unproductive labourers, but would absolutely require a much larger unproductive consumption, in order to give the fullest development to its productive powers. In no country, however, is the land so poor as not to yield some surplus produce ; and as the whole of the labouring population cannot, therefore, be employed in raising necessities, the remainder, if they be productive labourers, must be employed in the production of superfluities, and a proportionate degree of unproductive consumption must be always requisite to give effect to their labours, since, without it, their commodities could not possibly find a market.

There follows a long Physiocratic passage quoted from Paley (somewhat similar to the comments on the agricultural surplus made by Malthus in the *Essay*¹), which the author adduces as an illustration of the doctrine he wishes to lay down—that production cannot be carried “to its utmost extent” unless “they who have revenue at their command will give it in exchange for that particular description of commodities which are objects of unproductive expenditure”.²

It is clear from all this that we have not come very far from Spence. We are still in a society in which the landlords, cultivators and “manufacturers” are the only classes between whom it is deemed necessary to distinguish, and in which the landlords “support” the manufacturers by presenting the agricultural surplus to them in exchange for the luxuries which they produce. The theory of under-consumption as Malthus and his followers developed it depends to an extent that is not generally realised upon an essentially Physiocratic view of the pattern of production and demand. This is certainly *one* way of looking at society in all its stages (at least after the establishment of manufactures) ; but it is hardly the most useful way of looking at a modern society in which the dominating position formerly assumed by land has now been usurped by capital.

¹ Quoted above, p. 252.

² Quotations from *Considerations*, pp. 19-25.

With Chalmers, too, we are in the same Physiocratic realm. His division of classes is substantially the same, although he endeavours to bring it a little more up to date by dividing the producers of necessities into "agricultural" and "secondary" producers. His landlords, who "have a natural superiority over all other classes of men", exchange the agricultural surplus which accrues to them in the form of rent for the luxury goods produced by the so-called "disposable" population—"disposable" because the landlords may dispose of their services in whatever manner they please. Capital possesses no "creative and emanating power"; manufactures bear no "creative part in augmenting the public revenue"; food is the "chief article of maintenance", and it is therefore obvious that "principally with the holders of this maintenance, is lodged the power of replacing the outlays of the capitalist". It is quite clear that Chalmers regards the profits yielded in manufacture as being paid out of the agricultural surplus. Profits are dependent upon, and in fact originate in, the process of exchange.¹ In general, Chalmers follows Malthus fairly closely, extending his analogies and reproducing his illustrations. Value and profit are determined by supply and demand; over-production is possible notwithstanding the fact that "saving is spending"; the agricultural surplus is the "original fund out of which are paid the expenses of art, and science, and civilization, and luxury, and law, and defence"²—and so on. His differences with Malthus over the general glut question are mainly differences of emphasis. For example, Chalmers' illustrations are usually more extreme than Malthus's, assuming greater and more sudden changes; he gives more attention to the limitations imposed upon the expansion of capital by the state of agriculture; and he lays rather more stress on the mechanisms which ensure a restoration of equilibrium after a dislocation has occurred.³ It seems obvious that both Chalmers and Malthus were led towards their under-consumptionist conclusions by looking at modern capitalist society in terms of a collection of concepts originally derived from a very different institutional set-up. Our final task is to relate these concepts to the environment which gave

¹ Quotations from *Political Economy*, pp. 63, 80, 557 and 86. Chalmers' views regarding the subordinate position of profits are set out more clearly in his *Enquiry* (1808), particularly in Chapters 2 and 4.

² *Political Economy*, p. 46.

³ *Ibid.*, pp. 113-17. Cf. Malthus, *Principles*, p. 433.

birth to them, and to compare them with the set of ideas employed by Ricardo.¹

VII

Historians of economic thought have long been familiar with the idea that certain sets of ideological concepts can usefully be said to be determined by, or at least in a significant sense appropriate to, a given social and economic structure. It is now almost 120 years since Richard Jones, in his introductory lecture at King's College, London, demonstrated that "wealth, and the mode of its distribution" may assume "an active influence in creating the ties which bind the body politic together, and determine, by their form and complication, its character, and often its resources".² And since Jones's time the idea has become something of a commonplace. It is difficult, indeed, to understand how any historian of economic thought who wants to *interpret* the work of an author or a period can possibly do without it. A historian of music might not, perhaps, find it quite as useful: after all, a musician's work does not consist of an analysis and generalisation of the economic experience of his age—or at least does not directly consist of it. But it is, of course, precisely of this that the work of an economist does consist. If it does not, he is not an economist.

It is sometimes suggested today—possibly as a reaction to the extreme and arid relativism to which in the hands of some economists the idea I am now discussing was occasionally permitted to lead—that the economist should primarily concern himself with "the elucidation of the implications of the necessity of choice in various assumed circumstances",³ and should study the "historico-relative" material only for the purpose of drawing *subsidiary* postulates. If the Classical economists had followed this advice, our idea would certainly be of little use as a tool of analysis in connection with the present problem. But fortunately they did not. Their leading propositions, it is true, are often framed in a manner which suggests that they were conceived by their authors as

¹ The possibility of a general glut was recognised by a number of less important writers at this period. See, for example, John Craig's *Remarks on Some Fundamental Doctrines in Political Economy* (1821), Chapter 3; Robert Hamilton's *Progress of Society* (1830), Chapter 19; and John Cazenove's *Outlines of Political Economy* (1832), Chapter 19.

² *Literary Remains*, p. 554. Jones also clearly recognised that "those relations between the different classes which are established in the first instance by the institution of property in the soil, and by the distribution of its surplus produce" are "afterwards modified and changed (to a greater or less extent) by the introduction of capitalists, as agents in producing and exchanging wealth" (*ibid.*, p. 560).

³ Robbins, *Nature and Significance*, p. 83.

eternal truths. This, however, is rather because they tended to regard capitalism itself as an eternal category than because they were trying to erect principles which would be valid for other types of society as well. Ricardo, as Marx observed, knew of no form of society "outside of the bourgeois form"—unless it was the "parallelograms of Mr. Owen".¹ If this is so, if the Classical economists were simply concerned to generalise from their own economic experience, our idea remains useful and indeed indispensable. Naturally it must be used with caution. It cannot be applied automatically. Above all, one must beware of implying that the economic environment itself "produces" theories. Economic environments do not have ideas and cannot write treatises on political economy: these are functions reserved for men and women. But economic environments can and do set fundamental problems for men and women of goodwill to solve. How to increase national wealth; how to make the best use of a given stock of scarce resources; how to cure chronic unemployment; how to choose between alternative investment variants in the absence of a price mechanism—all these are basic problems which economic environments have set or are setting for economists to solve. Confronted with an important change in environment which either creates a new problem or renders the orthodox solution of an old one implausible, the economist of genius will survey the economic categories and relationships which are now prevalent in the real world around him and will *select* those which he regards as most significant in relation to the problem. He will then decide to what extent the ideas and techniques of the orthodox system are still relevant, and will make use of those which remain valuable in the new system of functional relationships which he builds up. The environment sets the problem and provides the raw material for its solution. It is in the process of *selection* from this material, and in the moulding of the selected elements into a new system of theoretical concepts and inter-relations, that the genius—and the political bias—of the economist reveal themselves. Having witnessed a conspicuous example of this work of system-building in our own time, we should find it easier to appreciate comparable examples further back in the past.

Consider a society which is not as yet dependent to any great extent upon foreign trade, and in which agricultural

¹ *Critique of Political Economy* (Kerr edn.), pp. 69-70.

production plays a predominant role. Let us assume that capitalist methods of production in both agriculture and manufacture are not unknown, but that so far they have been applied with evident success only in the field of agriculture, and even there only on a fairly small scale. Let us assume further that such manufactures as exist are primarily concerned with producing luxury goods which are purchased in the main by the landlords—the only social class which normally receives an income substantially higher than the subsistence level. The success of capitalist methods in agriculture has given the economists of our society some notion of the manner in which agricultural productivity may be increased by capital investment, and this has caused them to examine the problem of increasing national wealth in a new light. In such a society, which of the many prevalent relationships and categories will tend to be *selected* by the economists as relevant to the problem of increasing national wealth, and what will be the main characteristics of the theoretical system which is built up?

In the first place, it is clear that the relationships and categories selected will not necessarily be identical with those which we regard as significant in connection with our own particular economic problems today. In our imaginary society, for example, the relation between capitalist and worker may well be abstracted from. The social relations which will be likely to appear most relevant to the problem of increasing national wealth are those between the cultivators of the soil (including the agricultural capitalists), the landlords, and those employed in manufacture. The first class *produces* the agricultural surplus; the second class *receives* the surplus in the form of rent; and the third class *exchanges* its products with the landlords in return for a share in the surplus. Then again, the category “profit”, in the sense in which it is understood today, may not be recognised as significant outside agriculture, for the simple reason that it does not yet exist *as a norm* in any other sphere of production. It is only in agriculture that capitalists normally receive an income which after deducting the cost of labour and materials bears a fairly regular relationship to the amount of capital employed. In manufacture, “profit” in the sense of a rate per cent. normally received on capital will be more or less unknown, although manufacturers may occasionally receive substantial windfalls. Under such circumstances, the farmer’s

"profit" and the manufacturer's "profit" may be regarded, not as two different species of the same genus, but as two entirely separate categories of income which require separate analytical treatment. And finally, since profit has not yet emerged as a distinct and universal category of income, it will be *rent* which assumes the key position in the economy. Attention will be drawn to rent for two main reasons—first, because it is the only category of income of which part may *regularly* be spared for purposes of accumulation, and, second, because it either comprises or represents the agricultural surplus, which consists of commodities primary in the scale of wants and therefore effectively limits the extension of manufacture and commerce.

In the second place, the theoretical treatment of the problems of value and distribution in such a society is likely to be very different from our own approach to these problems. In fact the problems themselves may be viewed in a fundamentally different manner. In the field of value, since the whole emphasis will be laid on the relation between *cost* and *surplus*, a basic distinction will probably be drawn between "real value" and "exchange value". The "real value" of a commodity is constituted by its paid-out costs of production: for example, the "real value" of a manufactured commodity may be conceived in terms of the agricultural produce (in the form of food and raw materials) which has been physically used up in order to make it. The "exchange value" of a commodity, on the other hand, is simply the price received for it on the market—a price which varies according to fluctuations in supply and demand but tends under competitive conditions to settle at a relatively invariable level. There is no necessary tendency for commodities to sell at their "real value": in fact it is obvious that unless their "exchange value" is *above* their "real value" no surplus over cost will be realised. This approach to the problem is radically different from that adopted by Smith and Ricardo, in whose work an entirely new concept of "exchange value" appears. In the field of distribution, the approach is likely to be even more alien to our own. It is hardly too much to say that there will be no such thing as a "theory of distribution" in the modern sense. As Patten has remarked, there can be no proper theory of distribution until some portion of the social surplus is

undetermined.¹ In our imaginary society, the incomes of everybody except the landlords are at the subsistence level, and the social surplus, which is identified with the agricultural surplus, takes the form of rent alone. Under such circumstances, the question of the determination of the proportions in which the annual produce is divided between the social classes is not likely to appear either interesting or relevant. An account of the *process of circulation* may well take the place of a theory of distribution proper. It is not until profit has emerged as a normal and important category of income that the question of a theory of distribution is placed on the agenda for discussion. In the meantime, "profit" can be dealt with either by assuming that it is not a *net* income at all, or by treating it as an exceptional type of income which is paid out of the pocket of the purchaser. The "profit" received by the agricultural capitalist may possibly be regarded as being in the nature of a compensation for accidents and the cost of repairs; and the "profit" of the manufacturing capitalist may be regarded either as a sort of superior wage, or as an extra slice of the agricultural surplus which he is able (through his astuteness or monopolistic practices) to extort from the landlord by selling commodities to him at a price greater than their "real value".

This way of looking at the economy—which was, of course, essentially that of the Physiocrats—was eventually rendered implausible by what Richard Jones called "the introduction of capitalists". To the extent that capitalist methods spread throughout all spheres of production, and profits at a more or less regular rate per cent. came to be earned on capital in all its employments, the ideas we have been considering began to seem less and less adequate. But the Physiocratic theoretical structure was remarkably resilient, and up to a point could be suitably adapted to meet these changes. Turgot, for example, was able to make an advanced analysis of the equilibrium which establishes itself between the different employments of capital, while still clinging to the basic tenets of Physiocracy. Baudeau, again, was able to admit without any apparent embarrassment that the farmer's income included a payment for risk-bearing and for undertaking the cares of management, over and above the compensation for accidents and the cost of repairs which Quesnay

¹ S. N. Patten, "The Interpretation of Ricardo" (*Quarterly Journal of Economics*, April, 1893), *passim*.

had postulated as the sole constituents of "interest" on agricultural capital. Mercier's development of the concept of *prix nécessaire*, or supply price, was a brave attempt to bring the Physiocratic theory of value up to date. And in the work of all the later Physiocrats, notably Du Pont, ingenious efforts were made to reaffirm the concept of the exclusive (or at least the superior) "productivity" of agriculture while discarding or watering down the concept of the "sterility" of manufacture and commerce.

This Physiocratic structure—suitably amended to accord with contemporary changes in economic organisation—was always lurking at the back of the minds of the early under-consumptionists. It appealed to them for reasons which were largely political. On the one hand, it appealed to them because the Physiocratic realm represented a fairly close approximation to the type of economy which they most admired. Malthus, Spence and Chalmers were quite prepared to enter into some sort of compromise with the parvenu capitalist class, but they always hankered after a society in which the landlords would once again assume their rightful place as economic and political leaders of the community. Sismondi would have no truck with landlords: he was anxious to retreat even further back in history to the system of patriarchal cultivation; but the economy which he eulogised was at least one in which agriculture was predominant and manufacture definitely subsidiary.¹ On the other hand, the Physiocratic structure appealed to them because certain elements of it could be used to bolster up their general critique of capitalism. All of them believed that the unrestricted investment of capital, particularly in manufacture, would inevitably cause (and in fact already had caused) violent dislocations in the economy. And there were at least three ways in which basic elements of the Physiocratic structure could be used to give theoretical backing to this belief. First, the Physiocratic pattern of demand, with its emphasis on the purchase of manufactured goods by the landlord class, could be used to suggest that the prosperity of the community was largely dependent upon the continued and increasing expenditure of that class, and that if the landlords accumulated their income instead

¹ Rist has drawn attention to the fact that Sismondi sometimes "reasons as if the nation were composed of agriculturists who buy the manufactured goods they need with the revenue received from the sale of the present year's crop". See Gide and Rist, *A History of Economic Doctrines* (2nd English edn.), p. 190.

of spending it on personal consumption serious maladjustments would be brought about. Second, the Physiocratic account of value and profit could be used to draw attention in a more general manner to the idea that profit on capital was essentially dependent upon the effective demand of those who bought the commodities which the capital was employed to produce. Third, the Physiocratic idea of a natural balance between agriculture on the one hand and manufacture and commerce on the other could be used to provide a broad background for the study of economic dislocations. For these reasons, then, the approach of the early under-consumptionists was strongly influenced by their conscious or unconscious adoption of certain Physiocratic ideas. With Sismondi and Malthus we are sometimes in the Physiocratic and sometimes in the Ricardian realm. With Spence and Chalmers we are in the Physiocratic realm for almost the whole time.¹

Eventually, as I have said, the march of economic events renders this view of the economy implausible, even to those for whom it possesses political attractions. One simple but vastly important phenomenon impresses itself more and more on men's minds as capitalist competition develops in all spheres of production: all commodities which are produced for sale, irrespective of their physical attributes, normally tend to sell at a price which is sufficient not only to cover paid-out costs but also to provide a profit proportioned to the amount of capital employed. It was a consideration of this phenomenon—and certain associated phenomena such as the changes in the source of accumulation and the pattern of demand, and the growth of international trade and factor mobility—which stimulated the construction of a new theoretical system.

The differences between the new system and the Physiocratic system were considerable. The relation between capitalist and worker was no longer abstracted from, but placed at the very foundation of the analysis. Agricultural and manufacturing profits were clearly recognised as two different species of the same genus. Profit, rather than rent, assumed the key position in the economy, and the social

¹ Spence and Chalmers quite consciously made further amendments to the Physiocratic framework in an attempt to bring it more into consonance with the new economic environment. Spence, for example, admitted that the farmer usually shared in the *produit net*. Chalmers introduced his new class of "secondary" producers, and tried to adapt the basic model so that it could be applied to a country which was partly dependent upon overseas trade.

surplus was conceived as consisting not of rent alone but of rent and profits. In the field of value, "exchange value" was identified with equilibrium price and equated to cost of production including profits, and it was assumed that market price oscillated around "exchange value" according to fluctuations in supply and demand. In the field of distribution, since the social surplus was now conceived to consist of both rent and profits, the question of its apportionment between the landlords and the capitalists for the first time began to assume importance and interest.

There were three special aspects of the new system which brought it sharply into conflict with the early theories of under-consumption. First, it assumed "that those commodities only will be produced which will be suited to the wants and tastes of mankind, because none other will be demanded".¹ Since any lack of balance between supply and demand would be swiftly rectified per medium of the price mechanism, it was assumed that demand was merely a *condition* of production and therefore irrelevant to the problem of exchange value.² Second, as a necessary consequence, it made abstraction of the physical attributes of commodities. There no longer appeared to be any logical reason for laying emphasis on the physical distinctions between, say, agricultural produce and manufactured goods, and many of the examples imagined by the under-consumptionists of a dislocation of the balance between agriculture and manufacture began to appear as irrelevant. Third, profit was regarded as an income which *originated* in the process of production and was merely *realised* in the process of exchange. It followed that any explanation of profit conducted mainly in terms of supply and demand was bound to appear empty and superficial.

It is easy enough to criticise the assumptions upon which the new system was founded, and to assert that they begged the whole question of under-consumption. But under-consumption was a new phenomenon taking place in a new type of economy, and the general tendencies and features of that economy had to be summed up and generalised theoretically before the nature and causes of dislocations within it could be adequately studied. Ricardo and his disciples did not themselves make such a study, since for reasons which

¹ *Letters to Malibus*, p. 49.

² *Ibid.*, pp. 148-9. This conclusion was also dependent upon the further assumption of constant returns.

were primarily political they accepted Say's Law. But the example of Marx shows clearly enough that it was at least *possible* to make a profound analysis of under-consumption while at the same time accepting the greater part of the Ricardian economic framework. And if our study of the early under-consumptionists has shown anything it is this—that the theoretical apparatus which they used was hopelessly inadequate to the task which they set out to perform.

The early under-consumptionists failed, I believe, not only because their political opinions were reactionary but also because their economic theory was, in the widest sense, *out of date*.¹ It is a mistake to look upon the controversy, as so many have done, merely as a struggle between a "right" side and a "wrong" side, or merely as a political squabble disguised as an ideological one. Logic and politics certainly played an important part in determining the position of each individual economist, but the controversy was in essence a part of the wider struggle to establish a new set of theoretical principles which would more closely correspond to the social structure of the time. It provided, in fact, the major field in which this wider struggle was fought out. To say this is not, of course, to say that the *conclusions* of the under-consumptionists were necessarily wrong. To put the label "Physiocratic" on the foundations of their theory is merely to determine their place in the history of economic thought: it is not to dispose of them.

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¹ Patten, *op. cit.*, has analysed certain aspects of the Ricardo-Malthus controversy in a manner which bears some resemblance to this. See also J. H. Hollander, introduction to *Notes on Malthus*, pp. xxiii-iv. Possibly a further illustration of our ever-present tendency to analyse a new form of social organisation in terms of concepts which are more appropriate to an older form is provided by the modern theory of the allocation of resources under socialism.